

CONTENTS

	Pages
Principal's Report	1
Corporate Governance Statement	2-3
Responsibilities of the Court	4
Responsibilities of the Court: Other Disclosures	5
Membership of the Main Committees of Court	6-8
Auditors' Report	9-10
Financial Statements	
Statement of Accounting Policies	11-13
Group Income and Expenditure Account	14
Group Statement of Historical Cost Surpluses and Deficits	15
Statement of Total Recognised Gains and Losses	15
Balance Sheets	16-17
Group Cash Flow Statement	18
Notes to the Accounts	19-37
University Income and Expenditure Account	38

PRINCIPAL'S REPORT

For the year ended 31st July 2001

Income during the year amounted to £285 million, an increase over the previous year of some £7 million, primarily due to continued growth in research activity.

The bottom line was a minor deficit of £373,000, which was consistent with our plan to break even after charging depreciation on the current value of assets and assuming conservative "remaining useful lives". Given the continuing pressures on core funding, this outcome, which equates to an historic cost surplus of £6 million, is acceptable, but nevertheless represents only a fraction of one per cent of income and provides barely adequate resources to develop and maintain an infrastructure suitable for the range and quality of academic activity to which we continue to aspire.

As expected, the result is down from the comparable figure last year of £1.3 million surplus. This latter figure was obscured in the accounts by a write-off of some £13 million related to buildings to be demolished and replaced, resulting in a reported deficit of £12 million which unfortunately was misunderstood in some quarters.

Despite indications of some temporary improvement in public funding levels for higher education, the fact remains that universities' actual expenditure patterns suffer a higher level of inflation than the national average to which funding is generally related. In practice, this means that even so-called "real terms increases" in government funding (related to national average inflation) can be "real terms cuts" for the sector.

Our response to the expectation that this "inflation gap" will continue, has been to embark upon an ambitious and wide-reaching restructuring of our academic organisation, central management, administration and support services together with a programme of income-generating and cost-cutting initiatives.

This major programme will inevitably require prudent investment in a variety of areas and the necessary funds have been put in place through the issue during the year of an unsecured, long-term £40 million loan. While it appears from the Balance Sheet that this fund has barely been tapped, much has been committed, often on projects that will provide rapid pay-back allowing prompt re-investment.

While we therefore continue to be concerned about the financial climate in which we operate, we are confident that our robust financial and management strategies will ensure that we remain well-positioned to achieve our strategic objectives.

Lord Sutherland of Houndwood
Principal and Vice-Chancellor

CORPORATE GOVERNANCE STATEMENT

The University's Structure of Corporate Governance

The University of Edinburgh is committed to following best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. This was complemented by the guidance provided by the Turnbull Committee Report on Internal Control published in September 1999. This Corporate Governance Statement is intended to assist the reader of the accounts in understanding how the principles of corporate governance are applied in the University of Edinburgh.

By the Universities (Scotland) Act (1889), the University Court is a body corporate, with perpetual succession and a common seal. The present powers of the Court are defined in the Universities (Scotland) Act (1966) and include, *inter alia*, the amendment of the composition, powers and functions of bodies in the University and the creation of new bodies, the administration and management of the whole revenue and property of the University, internal arrangements of the University, appointments, review of decisions of Senatus, and, on the recommendations of Senatus, the regulation of degrees, admission and discipline of students.

The Court is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Court is of the view that there is an ongoing process for identifying, evaluating and managing the University's significant risks, that it has been in place for the year ended 31 July 2001 and up to the date of approval of the annual report and accounts, that it is under continuous development and that it accords with the internal control guidance for directors on the Combined Code as amended by the British Universities Finance Directors Group.

The Court confirms that, to the extent that the relevant statutory provisions permit, its practices reflect the recommendations of the Guide for Members of Governing Bodies and Good Practice Benchmarks published by the Scottish Higher Education Funding Council, except in the following respects:

1. Membership of the Court for a period in excess of nine years and/or membership for one complete term beyond the retirement age can be appropriate in cases where an individual has a particularly valuable contribution to make to the work of the Court; and
2. The Court's formal powers to remove members are confined to the members it itself co-opts, and do not apply to *ex officio* members or to those appointed by other bodies.

The University's Court meets seven times per year and has several committees, including a Finance and General Purposes Committee, a Nominations Committee, a Remuneration Committee, a Staff Committee and an Audit Committee. Each of these Committees is formally constituted with terms of reference and includes lay members of the Court. There is also a Central Management Group (CMG) that consists of senior academic and administrative managers who advise the Principal on senior management decisions.

The **Finance and General Purposes Committee** oversees the University's financial affairs on behalf of the Court. This includes the design of the planning and budgeting process, approval of the resulting plan and budget in the context of the University's overall strategy, and ensuring adequate monitoring thereafter.

The **Nominations Committee** considers nominations for co-opted vacancies in Court membership and for Court's nominations on the Curators of Patronage. It also receives annually lists of members of Court, Standing Committees of the Court and of the Court's representatives on outside bodies, and makes recommendations to Court on such matters.

Reports 2000/2001

THE UNIVERSITY OF EDINBURGH

CORPORATE GOVERNANCE STATEMENT

The **Remuneration Committee** considers the salary of the Principal and advises the Court as appropriate. It also advises the Principal with regard to his responsibilities for setting professorial and equivalent academic and academic related salaries.

The **Staff Committee** provides guidance on the development of staff policy and monitors the implementation of such policies. It also acts as the formal management route for local negotiation and consultation with recognised trade unions.

The **Central Management Group (CMG)** is a non-statutory body which plays an important part in the internal governance and academic operations of the University. It is the senior body for management decisions whose members are, between them, responsible and accountable for all components of the University's budget, both income and expenditure. CMG brings together the academic, financial, personnel and accommodation aspects of planning and the members of the body are named on page 8. It reports through the Academic Policy Committee to Senatus and through the Finance and General Purposes Committee to Court.

The **Audit Committee** meets four times a year, with the University's internal and external auditors in attendance. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Funding Council as they affect the University's business and monitors adherence to the regulatory requirements. It has authority to investigate any matters within its terms of reference. Whilst senior administrative officers attend meetings of the Audit Committee as necessary, they are not members of the Committee. Once a year the Committee, normally through the Chairman, meets the Internal and External Auditors on their own for independent discussions.

The Audit Committee also receives regular reports from the internal and external auditors which include recommendations for improvements in internal control. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. The emphasis is on obtaining the relevant degree of assurance and not merely reports of exceptions. The Court receives the minutes of each Audit Committee meeting and an annual report of its proceedings.

Internal Control

The process of identifying, evaluating and managing significant risk in the University commenced in March 1999, in anticipation of the requirements of the Turnbull Committee, by means of a control risk self-assessment questionnaire completed by senior University staff. Following this, CMG were instructed by the Court to carry out an initial review of procedures for risk appraisal. They concluded that risk analysis was a fundamental management responsibility and that risk should be considered in terms of three criteria:

- improving management techniques;
- taking action to reduce risk; and
- minimising the effort involved.

The specific risks identified were referred to relevant officers to consider the action needed and report back.

The University's approach to risk management is now being developed with assistance from external sources. There is active commitment to this process by the Court, Audit Committee and Central Management Group.

The Court believes that this process is consistent with the internal control guidance for directors on the Combined Code as amended by the British Universities Finance Directors Group.

Court has carried out an assessment of corporate governance for the year ended 31st July 2001 by considering documentation from senior management, internal and external audit, and taking account of events since 31 July 2001.

Reports 2000/2001

RESPONSIBILITIES OF THE COURT OF THE UNIVERSITY OF EDINBURGH

In accordance with the Universities (Scotland) Acts 1858-1966, the Court of the University of Edinburgh is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Court is responsible for keeping proper accounting records which disclose, with reasonable accuracy, the financial position of the University at any time and enable it to ensure that the financial statements are prepared in accordance with the Universities (Scotland) Acts 1858-1966, the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Higher Education Funding Council and the Court of the University of Edinburgh, the University Court, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Court has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed; and
- financial statements are prepared on the going concern basis.

The Court has taken reasonable steps to:

- ensure that funds from the Scottish Higher Education Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and hence to take reasonable steps to prevent and detect fraud; and
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the University's resources and expenditure.

RESPONSIBILITIES OF THE COURT OF THE UNIVERSITY OF EDINBURGH OTHER DISCLOSURES

DISABILITY POLICY

The University has adopted a Disability Policy covering staff, students and members of the public, and this policy states “ The University of Edinburgh is committed to a policy of equal opportunities for disabled staff and students and aims to create an environment which enables them to participate fully in the mainstream of University life”.

Wherever practical the University policy in relation to staff is to:

- seek to employ disabled people in jobs suited to their aptitudes, abilities and qualifications;
- seek to ensure that disabled employees are considered for promotion according to their aptitudes, abilities and qualifications;
- ensure that disabled people are not disadvantaged when the renewal of fixed-term contracts is being considered; and
- make use of the services and advice offered by the Employment Service wherever appropriate so as to make it possible to recruit a disabled person or retain an existing employee who has become disabled.

Currently 14 of our 6500 staff have declared that they have a disability. We strongly believe that this represents substantial under-reporting and that some 150 of our staff have chosen not to declare a disability.

POLICY AND PRACTICE ON PAYMENT OF SUPPLIERS

The University has published standard terms and conditions of trade that will apply to payments to suppliers unless other terms and conditions are agreed prior to business taking place. The University’s policy is to pay agreed invoices in accordance with these agreed terms of payment. At the year end the amount due to trade creditors was equivalent to 33 days of purchases from suppliers.

MEMBERSHIP OF THE COURT OF THE UNIVERSITY OF EDINBURGH AND ITS MAIN COMMITTEES

Court Membership

Membership of the University Court covering the period of these financial statements was as follows:-

The Rector (Convenor), Mr Robin Harper
 The Principal and Vice-Chancellor, Professor Sir Stewart Sutherland (became Lord Sutherland of Houndwood on 18/6/01)
 The Chancellor's Assessor, The Rt. Hon. Lord Cameron of Lochbroom

General Council Assessors

Professor J M M Cunningham
 Mrs C M Vaughan Griffiths
 Mr R D D Bertram

Senatus Academicus Assessors

Professor L A M Waterhouse
 Professor I M L Donaldson
 Dr L Collins
 Dr S van Heyningen

City of Edinburgh Council Assessor

The Right Hon. Eric Milligan, Lord Provost of the City of Edinburgh (from 1/6/01)
 Councillor P Williamson (to 31/5/01)

Co-opted Members

Dr D B B Smith (Vice-Convenor)
 Miss E A Mackay
 Mr J Fiddes
 Mr J Stretton
 Sir John Shaw
 Mr P Stillwell
 Professor A D Milne
 Mr A J Gavin

Non-Teaching Staff Assessor

Mrs M Jackson

Student Members

Mr D Hannard (to 30/6/01)
 Ms D Gostling (to 30/6/01)
 Mr D Orr (from 1/7/01)
 Mr P McColl (from 1/7/01)

MEMBERSHIP OF THE COURT OF THE UNIVERSITY OF EDINBURGH AND ITS MAIN COMMITTEES

Standing Committees of the University Court

Finance and General Purposes Committee
Remuneration Committee
Nominations Committee
Audit Committee
Health and Safety Committee
Personal Chairs Committee
Staff Committee
University Collections Advisory Committee

Membership of the main committees of Court

Finance and General Purposes Committee

Convener: Dr D B B Smith

The Principal
Mr D Orr (SRC President) (from 1/7/01)
Mr D Hannard (SRC President) (to 30/6/01)
Dr M J B Lowe, Secretary to the University
Mr G O Sutherland, Director of Finance
Mr A J Gavin
Miss E A Mackay
Sir John Shaw
Senior Vice-Principal Professor M Anderson
Professor I M L Donaldson

Remuneration Committee

The Principal
Dr D B B Smith
Mr J Stretton

Nominations Committee

Convener: Dr D B B Smith

The Principal
Professor L A M Waterhouse
Dr M J B Lowe
Miss E A Mackay
Professor J M M Cunningham

Reports 2000/2001

THE UNIVERSITY OF EDINBURGH

MEMBERSHIP OF THE COURT OF THE UNIVERSITY OF EDINBURGH AND ITS MAIN COMMITTEES

Staff Committee

Convener: Professor L Waterhouse

Dr J Martin
Mrs J Draper
Ms S Eden
Ms E MacArthur
Dr A Jarman
Professor D R Ladd
Mrs S Cannell
Professor N A Seaton
Ms R Arshad
Professor J Phillips (to 31/3/01)
Professor R Jeffrey
Dr A Easson
Mr P Stillwell

Audit Committee

Convener: Professor J M M Cunningham (to 31/12/00)
Mr J Stretton (from 1/1/01)

Mr F Hitchman (from 19/3/01)
Professor A D Milne
Mr D A Ross Stewart
Mr G M Murray

Membership of the Central Management Group

Convener: The Principal

Senior Vice-Principal Professor M Anderson
Vice-Principal Dr G R Field
Vice-Principal Professor Sir David Carter
Vice-Principal Professor A Brown
Vice-Principal Professor G S Boulton
Assistant Principal Dr D E S Truman
Dr F D Dow
Professor A P Cohen
Professor C C Bird
Professor W G Hill
Professor G Kirk
Dr M J B Lowe
Mr M D Cornish (from 1/5/01)

AUDITORS' REPORT TO THE COURT OF THE UNIVERSITY OF EDINBURGH

We have audited the financial statements for the year ended 31 July 2001 which comprise the Group Income and Expenditure Account, the Group Statement of Historic Cost Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Group and University Balance Sheets and the related notes 1 to 35. These financial statements have been prepared on the basis of the accounting policies numbered 1 to 12 set out on the pages preceding the financial statement.

Respective Responsibilities of the Court and Auditors

The University Court is responsible for preparing the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University has been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Scottish Higher Education Funding Council.

We also report to you if, in our opinion, the Principal's Report is not consistent with the financial statements, if the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for the purposes of our audit.

We read the other information contained in the Principal's Report and Corporate Governance statement and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Court in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**AUDITORS' REPORT TO THE COURT
OF THE UNIVERSITY OF EDINBURGH**

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the affairs of the University and the Group at 31 July 2001 and of the Group's income and expenditure for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting in Further and Higher Education Institutions and in accordance with the Universities (Scotland) Acts 1858-1966;
- income from the Scottish Higher Education Funding Council grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received;
- income has been applied in accordance with the Universities (Scotland) Acts 1858-1966 governing the University and, where appropriate, with the Financial Memorandum dated 1 August 1996 (incorporating 1998 revisions) with the Scottish Higher Education Funding Council.

Ernst & Young LLP
Registered Auditor
Edinburgh
17 December 2001

STATEMENT OF ACCOUNTING POLICIES

1 Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments and certain Land and Buildings, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education and applicable accounting standards.

2 Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University and all subsidiary undertakings including quasi subsidiaries for the financial year to 31 July. A list of the subsidiary undertakings is included in note 13.

The consolidated financial statements do not include those of the University of Edinburgh Students' Association as it is a separate charity in which the University has no financial interest and no control or significant influence over policy decisions.

3 Recognition of Income

Income from Specific Endowments and Donations and Research Grants and Contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards infrastructure costs. All income from short-term deposits and General Endowment Asset Investments is credited to the Income and Expenditure Account on a receivable basis.

4 Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure in equal amounts over the periods of the leases.

5 Land and Buildings

Land and buildings held by the University at 1 August 1999 were revalued at that date at valuations performed by Messrs Gerard Eve, Chartered Surveyors. The majority of buildings were valued on the depreciated replacement cost basis. Certain other buildings, mainly residential accommodation, retail properties and land were valued on existing use or open market value bases. The University complies with the requirements of FRS 15, Tangible Fixed Assets, through interim reviews of the above valuations within the required five year cycle specified by the reporting standard.

Additions since 1 August 1999 are shown at cost. Depreciation on buildings has been provided on a straight-line basis using an assessment of the remaining useful life of each building. No depreciation is provided on land.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

STATEMENT OF ACCOUNTING POLICIES

Land and Buildings (continued)

All land and buildings are included in the balance sheet with the exception of the New College Divinity complex on the Mound which is regarded as inalienable and two farms which form part of agricultural tenancies.

6 Equipment

Equipment, including micro-computers and software, costing less than £25,000 per individual item or group of related items, is written off in the year of acquisition. All other equipment is capitalised. Capitalised equipment is stated at cost and depreciated over a four year period.

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over a four year period.

Donated equipment is capitalised at depreciated replacement cost at the date of receipt and is depreciated over a four year period.

Certain subsidiaries provide different rates of depreciation to that of the parent. These have an immaterial effect on the results of the group.

7 Investments

Endowment Asset Investments are included in the Balance Sheet at market value. Temporary deposits are included at cost.

8 Stocks

Stocks for resale and other stocks are included at the lower of cost and net realisable value.

9 Maintenance of Premises

The University has a five-year rolling maintenance plan which is reviewed on an annual basis. The cost of routine corrective maintenance is charged to the income and expenditure account as incurred.

10 Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

11 Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and, as such, is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

STATEMENT OF ACCOUNTING POLICIES

12 Pension Accounting Policy

The University and certain subsidiaries participate in three separately administered, externally funded, defined benefit pension schemes, all of which are contracted out of the State Earnings-Related Pension Scheme. The schemes are:

- Universities Superannuation Scheme (USS)
- University of Edinburgh Staff Benefits Scheme (EUSBS)
- Strathclyde Pension Fund (SPF)

Each fund is valued every three years by independent actuaries. Additionally, the actuaries review the progress of the schemes in each of the intervening years. The University has adopted the transitional requirements of FRS17, Retirement Benefits in accounting annually for the above funds.

The University also participates in the Scottish Teachers Superannuation Scheme (STSS), an unfunded, defined benefit pension scheme which is also contracted out of the State Earnings-Related Pension Scheme. The scheme has a notional fund which is revalued on a five year cycle by the Government Actuary.

Contributions to the above four schemes are charged in the Income and Expenditure Account so as to spread the cost of providing pensions over the employees' working lives within the organisation. The regular cost is attributed to individual years using the projected unit credit method.

Variations in pension costs as a result of actuarial valuations or premature retirement schemes are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the Income and Expenditure Account are treated as provisions in the balance sheet.

The University also contributes to The Federated Superannuation System (FSSU), a defined contribution pension scheme which is not contracted out of the State Earnings-Related Pension Scheme. Contributions are charged in the Income and Expenditure Account as they become payable in accordance with the rules of the scheme. A small number of subsidiary company employees are members of other defined contribution schemes. Contributions are charged in the Income and Expenditure Account in the year in which they become payable.

GROUP INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 July 2001

	Note	2001 £ 000's	2000 £ 000's
INCOME			
Funding Council grants	1	104,159	104,763
Tuition fees and education contracts	2	41,537	39,124
Research grants and contracts	3	76,495	70,083
Other income	4	55,115	56,923
Endowment and Investment income	5	7,685	7,093
Total Income		284,991	277,986
EXPENDITURE			
Staff costs	6	171,111	164,902
Other operating expenses	8	98,533	97,401
Depreciation	12	11,820	9,112
Impairment of fixed assets	12	–	16,349
Interest payable	9	3,903	2,223
Total Expenditure		285,367	289,987
DEFICIT ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAX			
		(376)	(12,001)
Taxation	10	(1)	3
DEFICIT ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAX			
		(375)	(12,004)
Minority Interest		(2)	8
DEFICIT ON CONTINUING OPERATIONS FOR THE YEAR			
		(373)	(12,012)

The notes on pages 19-37 form part of the Financial Statements.

<i>Explanatory Note</i>		2001 £ 000's	2000 £ 000's
DEFICIT ON CONTINUING OPERATIONS AS ABOVE FOR THE YEAR POST EXCEPTIONAL ITEMS			
		(373)	(12,012)
LESS: EXCEPTIONALS INCLUDED IN THE YEAR			
Income from Funding Council grants	1	–	(340)
Other income	4	–	(2,719)
Impairment of Fixed Assets	12	–	16,349
(DEFICIT)/SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR BEFORE EXCEPTIONAL ITEMS			
		(373)	1,278

Financial Statements 2000/2001

THE UNIVERSITY OF EDINBURGH

GROUP STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS
For the year ended 31 July 2001

	Note	2001 £ 000's	2000 £ 000's
DEFICIT AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAX		(376)	(12,001)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	23	4,269	3,722
Realisation of revaluation gains of previous years	23	2,062	2,134
Difference between historic cost of impairment charge and the actual impairment charge for the year calculated on the revalued amount		–	8,842
HISTORICAL COST SURPLUS BEFORE TAXATION		<u>5,955</u>	<u>2,697</u>
HISTORICAL COST SURPLUS AFTER TAX AND MINORITY INTEREST ATTRIBUTABLE TO THE UNIVERSITY		<u>5,958</u>	<u>2,686</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 July 2001

	Note	2001 £ 000's	2000 £ 000's
DEFICIT ON CONTINUING OPERATIONS FOR THE YEAR		(373)	(12,012)
(Depreciation)/Appreciation on endowment asset investments	14	(5,237)	3,629
Unrealised surplus on revaluation of tangible fixed assets		–	21,259
Endowment income retained/(released)		1,543	(4,850)
TOTAL (LOSSES)/GAINS RECOGNISED DURING THE CURRENT YEAR		<u>(4,067)</u>	<u>8,026</u>
Reconciliation:			
Opening reserves and endowments as at 1 August 2000		577,803	
Total recognised gains and losses for the year		<u>(4,067)</u>	
Closing reserves and endowments as at 31 July 2001		<u>573,736</u>	

BALANCE SHEETS
As at 31 July 2001

	Note	Group		University	
		2001 £ 000's	2000 £ 000's	2001 £ 000's	2000 £ 000's
FIXED ASSETS					
Tangible assets	12	569,040	550,012	566,618	546,330
Investments	13	405	490	2,659	3,024
		569,445	550,502	569,277	549,354
ENDOWMENT ASSET INVESTMENTS	14	159,316	163,246	159,316	163,246
CURRENT ASSETS					
Stocks and stores in hand		2,093	2,184	1,401	1,456
Debtors	15	50,620	43,487	53,080	46,692
Cash at bank and in hand	29	56,359	22,080	51,992	16,803
		109,072	67,751	106,473	64,951
CREDITORS: Amounts falling due within one year	16	(68,880)	(66,242)	(68,932)	(65,570)
NET CURRENT ASSETS/(LIABILITIES)		40,192	1,509	37,541	(619)
TOTAL ASSETS LESS CURRENT LIABILITIES		768,953	715,257	766,134	711,981
CREDITORS: Amounts falling due after more than one year	17	(61,826)	(22,513)	(59,569)	(20,264)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(6,835)	(6,745)	(6,835)	(6,745)
TOTAL NET ASSETS		700,292	685,999	699,730	684,972

BALANCE SHEETS
As at 31 July 2001

	Note	Group		University	
		2001 £ 000's	2000 £ 000's	2001 £ 000's	2000 £ 000's
Represented by:					
DEFERRED CAPITAL GRANTS	20	126,519	108,157	126,519	107,823
ENDOWMENTS					
Specific	21	157,207	160,797	157,207	160,797
General	21	3,176	3,280	3,176	3,280
		160,383	164,077	160,383	164,077
RESERVES					
Revaluation reserve	22	310,293	316,624	310,293	316,624
General reserves	23	103,060	97,102	102,535	96,448
		413,353	413,726	412,828	413,072
MINORITY INTERESTS		37	39	-	-
TOTAL FUNDS		700,292	685,999	699,730	684,972

The financial statements on pages 11 to 37 were adopted by Court on 17th December 2001 and were signed on its behalf by:

Lord Sutherland of Houndwood Principal

D B B Smith Vice-Convenor of the University Court

G O Sutherland Director of Finance

GROUP CASH FLOW STATEMENT
For the year ended 31 July 2001

	<u>Note</u>	<u>2001</u> <u>£'000's</u>	<u>2000</u> <u>£'000's</u>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	24	309	(3,734)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	25	5,639	4,461
TAXATION	10	1	(3)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	26	(10,393)	(9,119)
MANAGEMENT OF LIQUID RESOURCES	27	(31,440)	5,547
FINANCING	28	38,723	(1,124)
INCREASE/(DECREASE) IN CASH IN THE PERIOD	29	<u>2,839</u>	<u>(3,972)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS			
Increase/(Decrease) in cash in the period		2,839	(3,972)
Cash outflow/(inflow) from increase/(decrease) in liquid resources		31,440	(5,547)
Change in net (debt)/funds resulting from cashflows		<u>(38,723)</u>	<u>1,124</u>
Movement in net funds for the period	29	(4,444)	(8,395)
Net (debt)/funds at start of year	29	(1,712)	6,683
Net debt at close of year	29	<u>(6,156)</u>	<u>(1,712)</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

	2001	2000
	<u>£ 000's</u>	<u>£ 000's</u>
1 FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	63,759	63,012
Research	34,609	34,511
Specific grants		
Continuing education	–	116
Information systems	1,122	1,365
Other	3,775	4,335
Deferred capital grants released in year		
Buildings (note 20)	608	1,092
Equipment (note 20)	286	332
	<u>104,159</u>	<u>104,763</u>
<p>Deferred capital grants released in the year to July 2000 in respect of buildings include an Exceptional Item of £340,000 in respect of properties on which revaluation deficits had been charged to expenditure in the year.</p>		
2 TUITION FEES AND EDUCATION CONTRACTS		
UK and EU Higher Education Students	21,547	21,017
Full-time students charged overseas fees	14,385	12,519
Research training support grants	1,086	969
Short course and other fees and support grants	4,519	4,619
	<u>41,537</u>	<u>39,124</u>
3 RESEARCH GRANTS AND CONTRACTS		
Grants		
Research councils	25,067	23,767
UK based charities	22,667	19,544
UK central government bodies, local and health authorities	14,624	12,698
UK industry, commerce and public corporations	5,068	5,149
EU government bodies	4,506	4,728
EU other	383	543
Other overseas	3,170	3,145
Other sources	1,010	509
	<u>76,495</u>	<u>70,083</u>
Less: direct costs	<u>(67,390)</u>	<u>(62,033)</u>
Contribution towards indirect costs	<u>9,105</u>	<u>8,050</u>

Deferred capital grants:

Research income of £7,891,000 (2000 – £699,000) has been deferred (see note 20) to match purchases of items of equipment costing in excess of £25,000 which have been capitalised. The income includes Deferred Capital Grants Released during the year of £2,559,000 (see note 20, 2000 – £1,155,000).

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

	2001 £ 000's	2000 £ 000's
4 OTHER INCOME		
Residences, Catering and Conferences	18,464	18,021
Other services rendered	24,450	25,349
Health Authorities	930	1,121
Released from deferred capital grants		
Buildings (note 20)	1,106	3,345
Equipment (note 20)	539	514
Other Income	9,626	8,573
	<u>55,115</u>	<u>56,923</u>
<p>Deferred capital grants released in the year to July 2000 in respect of buildings included an Exceptional Item of £2,719,000 in respect of properties on which revaluation deficits had been charged to expenditure in the year.</p>		
5 ENDOWMENT AND INVESTMENT INCOME		
Specific endowment income (note 21)	4,975	5,781
General endowment income (note 21)	123	109
Other interest receivable	2,587	1,203
	<u>7,685</u>	<u>7,093</u>
6 STAFF	2001	2000
	Number	Number
Staff numbers (expressed as full time equivalents) were as follows :		
Academic and Related	3,123	3,021
Clerical	1,089	1,104
Manual	874	908
Technical	669	742
	<u>5,755</u>	<u>5,775</u>
	2001	2000
	£ 000's	£ 000's
Staff costs:		
Salaries and Wages	141,796	137,433
Social security costs	10,883	10,800
Funded pension costs (note 30)	15,240	14,690
Severance costs and unfunded pensions	3,192	1,979
	<u>171,111</u>	<u>164,902</u>
	2001	2000
	£ 000's	£ 000's
Staff cost analysis:		
Teaching and Research	121,396	117,649
Library, computer and other academic services	11,505	11,079
Administration and central services	13,775	13,319
Premises	8,014	7,577
Residences and catering operations	5,929	5,984
Other including income generating operations	7,300	7,315
Severance costs and unfunded pensions	3,192	1,979
	<u>171,111</u>	<u>164,902</u>

Financial Statements 2000/2001

THE UNIVERSITY OF EDINBURGH

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

7 SENIOR POST HOLDERS

Remuneration of higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded from the University's Income and Expenditure Account. The number of staff, including senior post-holders and the Principal, who received emoluments in the following ranges was:

	2001 <u>Number</u>	2000 <u>Number</u>
£50,000 - £59,999	121	86
£60,000 - £69,999	67	67
£70,000 - £79,999	22	22
£80,000 - £89,999	11	17
£90,000 - £99,999	16	5
£100,000 - £109,999	1	12
£110,000 - £119,999	13	1
£120,000 - £129,999	3	4
£130,000 - £139,999	2	-
£150,000 - £159,999	-	1
£160,000 - £169,999	1	-
	<u>257</u>	<u>215</u>

	2001 <u>£ 000's</u>	2000 <u>£ 000's</u>
Emoluments of the Principal	<u>161</u>	<u>156</u>

The emoluments of the Principal include benefits in kind but exclude the University's pension contributions to the USS which are paid at the same rate as for other academic staff and amounted to £22,416 (2000 – £22,005).

	2001 <u>£ 000's</u>	2000 <u>£ 000's</u>
Compensation for loss of office paid to senior members of staff earning in excess of £50,000 per annum or whose compensation arrangement exceeded £75,000.		
Payments to USS for enhanced pension benefits	389	219
Other payments in respect of loss of office	<u>134</u>	<u>13</u>
	<u>523</u>	<u>232</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

	2001 £000's	2000 £ 000's
8 OTHER OPERATING EXPENSES		
Equipment and furniture not capitalised	15,327	13,711
Residences, catering and conferences operating expenses	8,014	8,041
Repairs and general maintenance	10,088	7,754
Heat, light, water and power	4,175	4,988
Printing, stationery and office expenses	3,824	3,940
Computer software and supplies	1,039	1,262
Consumables and laboratory expenditure	2,909	2,899
Contributions to other bodies	2,359	2,131
Travel, subsistence and accommodation	5,323	5,105
Research travel	2,605	2,297
Books and periodicals	2,609	2,408
Lecturers' fees and student demonstrators	1,862	1,785
Postgraduate studentships and other assistance	2,364	2,547
Fellowships, scholarships and prizes	1,598	1,655
Grants to University of Edinburgh Students' Association	1,594	1,325
Fees charged by External Auditors		
Audit	67	63
Non-Audit Services	74	65
Bad debt provision	309	286
Other services	825	1,507
Other research expenses	19,911	19,839
Other expenses	11,657	12,747
Loss on disposal of tangible fixed assets	–	1,046
	98,533	97,401
9 INTEREST PAYABLE		
Bank and other loans	3,727	1,890
Finance leases	176	333
	3,903	2,223
10 TAXATION		
UK corporation tax (credit)/charge on subsidiaries' profits	(1)	3
11 DEFICIT FOR THE YEAR		
The Group deficit for the period is made up as follows:		
University's deficit for the period excluding surpluses covenanted to the University by subsidiaries	(1,544)	(12,430)
Surplus generated by subsidiary undertakings	1,171	418
Total	(373)	(12,012)

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

12 TANGIBLE ASSETS

Group

	Land & Buildings £ 000's	Equipment £ 000's	Total £ 000's
Cost or valuation			
As at 1 August 2000	571,337	23,683	595,020
Additions at cost	25,625	8,736	34,361
Disposals	(11,305)	(188)	(11,493)
As at 31 July 2001	<u>585,657</u>	<u>32,231</u>	<u>617,888</u>
Depreciation			
As at 1 August 2000	24,803	20,205	45,008
Charge for the year	7,912	3,908	11,820
Disposals	(7,838)	(142)	(7,980)
As at 31 July 2001	<u>24,877</u>	<u>23,971</u>	<u>48,848</u>
Net book value			
As at 31 July 2001	<u>560,780</u>	<u>8,260</u>	<u>569,040</u>
As at 31 July 2000	<u>546,534</u>	<u>3,478</u>	<u>550,012</u>

All land and buildings are held on a freehold basis.

Under FRS 11, Impairment of Fixed Assets and Goodwill, a charge of £10,081,000 was recognised in the accounts for the year to 31 July 2000. This, together with a further charge of £6,268,000 in respect of the write-down of other assets following revaluation, comprised an Exceptional Impairment charge of £16,349,000 which was included in the Depreciation provided at 31 July 2000.

The net book value of tangible fixed assets includes an amount of £1,781,000 (2000 – £1,851,000) of buildings, fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £70,000 (2000 – £79,000).

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

12 TANGIBLE ASSETS (continued)

University

	Land & Buildings £ 000's	Equipment £ 000's	Total £ 000's
Cost or valuation			
As at 1 August 2000	567,021	22,354	589,375
Additions at cost	25,621	8,706	34,327
Disposals	(8,974)	–	(8,974)
As at 31 July 2001	<u>583,668</u>	<u>31,060</u>	<u>614,728</u>
Depreciation			
As at 1 August 2000	23,490	19,555	43,045
Charge for the year	7,887	3,808	11,695
Disposals	(6,630)	–	(6,630)
As at 31 July 2001	<u>24,747</u>	<u>23,363</u>	<u>48,110</u>
Net book value			
As at 31 July 2001	<u>558,921</u>	<u>7,697</u>	<u>566,618</u>
As at 31 July 2000	<u>543,531</u>	<u>2,799</u>	<u>546,330</u>

There is a standard security over various properties belonging to the University which has been granted as part of loan arrangements. There are no other restrictions on the realisation of assets represented by University land and buildings apart from those set out in the Financial Memorandum with the Scottish Higher Education Funding Council.

Net book value historical cost equivalent

	Group		University	
	2001 £ 000's	2000 £ 000's	2001 £ 000's	2000 £ 000's
Land and buildings	250,477	229,903	248,618	226,900
Equipment	8,260	3,478	7,697	2,799
	<u>258,737</u>	<u>233,381</u>	<u>256,315</u>	<u>229,699</u>

The group depreciation charge has been matched by:

	Group	
	2001 £ 000's	2000 £ 000's
Deferred capital grants released (note 20)	5,098	3,379
Revaluation reserve transferred to general reserves (note 22)	4,269	3,722
Earnings in subsidiaries	157	226
General income	2,296	1,785
	<u>11,820</u>	<u>9,112</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

	Group		University	
	2001 £ 000's	2000 £ 000's	2001 £ 000's	2000 £ 000's
13 INVESTMENTS				
Investment in subsidiary companies at cost	–	–	358	358
Loans to subsidiary companies	–	–	2,001	2,246
Loan to The Scottish Agricultural College	170	290	170	290
Other investments	235	200	130	130
	<u>405</u>	<u>490</u>	<u>2,659</u>	<u>3,024</u>

Subsidiary Undertakings

The following material subsidiary undertakings which are registered in Scotland and operate in the United Kingdom have been consolidated:

- Edinburgh Research and Innovation Limited which is wholly owned by the University and limited by guarantee;
- Edinburgh University Press Limited of which the University owns 100 per cent of the issued share capital of 357,482 ordinary shares of £1 each;
- Edinburgh Technopole Company Limited of which the University owns 100 per cent of the issued share capital of 2 ordinary shares of £1 each;
- UoE Accommodation Limited of which the University owns 100 per cent of the issued share capital of 2 ordinary shares of £1 each;
- UoE Trading Limited of which the University owns 100 per cent of the share capital of 2 ordinary shares of £1 each;
- University of Edinburgh Development Trust, a charity registered in Scotland, Registered Charity No. SC004307. The trust is classed as a “Quasi-subsiary” of the University under the guidelines of FRS 5, “Reporting the Substance of Transactions”;
- Edinburgh Technology Fund Limited of which the University owns 100 per cent of the issued share capital of 6,000 “A” ordinary Shares of £1 each; and
- Edinburgh Resource Centre Limited of which the University owns 100 per cent of the issued share capital of 1 ordinary share of £1.

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
14 ENDOWMENT ASSETS			
As at 1 August 2000	159,967	3,279	163,246
Additions (note 26)	3,108	1	3,109
Disposals (note 26)	(1,802)	–	(1,802)
Depreciation on realisation and revaluation	(5,132)	(105)	(5,237)
As at 31 July 2001	<u>156,141</u>	<u>3,175</u>	<u>159,316</u>

Financial Statements 2000/2001

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

	Group and University			
	2001		2000	
	£ 000's		£ 000's	
14 ENDOWMENT ASSETS (continued)				
Endowment asset investments are comprised of:				
Fixed interest stocks		43,509		36,716
Equities		108,106		122,462
Bank balances		7,701		4,068
Total endowment asset investments – Market Values		159,316		163,246
Endowment Assets – at Cost		128,638		127,148
	Group		University	
	2001	2000	2001	2000
	£ 000's	£ 000's	£ 000's	£ 000's
15 DEBTORS				
Debtors	46,271	40,411	44,099	37,911
Amounts owing from subsidiary companies	–	–	5,300	5,730
Prepayments	4,349	3,076	3,681	3,051
	50,620	43,487	53,080	46,692
	Group		University	
	2001	2000	2001	2000
	£ 000's	£ 000's	£ 000's	£ 000's
16 CREDITORS:				
Amounts falling due within one year				
Unsecured loans (note 18)	381	366	381	366
Secured loans (note 18)	308	282	308	282
Obligations under finance leases (note 18)	–	631	–	631
Creditors	19,587	16,628	18,623	15,072
Amounts owing to subsidiary companies	–	–	3,516	3,130
Social security and other taxation payable	4,275	4,087	4,270	4,048
Accruals and deferred income	44,329	44,248	41,834	42,041
	68,880	66,242	68,932	65,570
	Group		University	
	2001	2000	2001	2000
	£ 000's	£ 000's	£ 000's	£ 000's
17 CREDITORS:				
Amounts falling due after more than one year				
Bank loans (note 18)	59,569	20,264	59,569	20,264
Obligations under finance leases (note 18)	2,257	2,249	–	–
	61,826	22,513	59,569	20,264

Financial Statements 2000/2001

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

18 BORROWINGS

	Group and University	
	2001	2000
Bank loans	£ 000's	£ 000's
Instalments are repayable as follows:		
Unsecured loans repayable in 2002	381	366
Secured loans repayable in 2002	308	282
Unsecured loans repayable between 2003 and 2006	1,380	1,408
Unsecured loans repayable after 2006	49,741	10,100
Secured loans repayable between 2003 and 2006	1,534	1,406
Secured loans repayable after 2006	<u>6,914</u>	<u>7,350</u>
	60,258	20,912
Less: falling due within one year (note 16)	<u>689</u>	<u>648</u>
Total bank loans (note 17)	<u><u>59,569</u></u>	<u><u>20,264</u></u>

The University has unsecured loans with interest charged at 9.6% and 8.9% fixed p.a. and secured loans with interest charged at 8.7% fixed p.a. These loans are repayable over a 20 year period. In addition, during the year the University drew down £40,000,000 under long term credit facilities repayable as follows:

- a) £10,000,000 at a fixed rate of 6.99%, repayable at the end of fifteen years
b) £30,000,000 at a fixed rate of 6.98%, repayable in equal instalments between years twenty five and thirty.

	Group		University	
	2001	2000	2001	2000
	£ 000's	£ 000's	£ 000's	£ 000's
Finance leases				
Obligations under finance leases fall due as follows:				
Due within one year (note 16)	–	631	–	631
Between two and five years	–	–	–	–
After five years	<u>2,257</u>	<u>2,249</u>	–	–
	<u><u>2,257</u></u>	<u><u>2,880</u></u>	<u><u>–</u></u>	<u><u>631</u></u>

19 PROVISIONS FOR LIABILITIES AND CHARGES

	Group and University		
	Unfunded Pensions	Other	Total
	£ 000's	£ 000's	£ 000's
As at 1 August 2000	6,389	356	6,745
Utilised in year	(415)	–	(415)
Transfer from income and expenditure account	<u>505</u>	–	<u>505</u>
As at 31 July 2001	<u><u>6,479</u></u>	<u><u>356</u></u>	<u><u>6,835</u></u>

In compliance with Financial Reporting Standard 12 the above provisions relate only to contractual and legal obligations of the University.

The University has a liability of £6,479,000 (2000 – £6,389,000) for pensions payable to former members of Moray House staff who have taken early retirement.

The other provision totalling £356,000 is in respect of decommissioning costs at the Scottish Universities Research Reactor Centre. These costs are not fully covered by the contribution made by SHEFC in 1999.

Financial Statements 2000/2001

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

20 DEFERRED CAPITAL GRANTS

Group	Funding Council £ 000's	Other grants and benefactions £ 000's	Research income £ 000's	Total £ 000's
As at 1 August 2000				
Land	103	170	–	273
Buildings	59,043	46,759	–	105,802
Equipment	361	710	1,011	2,082
	<u>59,507</u>	<u>47,639</u>	<u>1,011</u>	<u>108,157</u>
Capital expenditure during the year				
Buildings	9,127	6,155	–	15,282
Equipment	187	100	7,891	8,178
	<u>9,314</u>	<u>6,255</u>	<u>7,891</u>	<u>23,460</u>
Released to income and expenditure account				
Buildings	608	1,106	–	1,714
Equipment	286	539	2,559	3,384
	<u>894</u>	<u>1,645</u>	<u>2,559</u>	<u>5,098</u>
As at 31 July 2001				
Land	103	170	–	273
Buildings	67,562	51,808	–	119,370
Equipment	262	271	6,343	6,876
	<u>67,927</u>	<u>52,249</u>	<u>6,343</u>	<u>126,519</u>
University	Funding	Other grants	Research	Total
	Council	and benefactions	income	£ 000's
	£ 000's	£ 000's	£ 000's	£ 000's
As at 1 August 2000				
Land	103	170	–	273
Buildings	59,043	46,425	–	105,468
Equipment	361	710	1,011	2,082
	<u>59,507</u>	<u>47,305</u>	<u>1,011</u>	<u>107,823</u>
Capital expenditure during the year				
Buildings	9,127	6,155	–	15,282
Equipment	187	100	7,891	8,178
	<u>9,314</u>	<u>6,255</u>	<u>7,891</u>	<u>23,460</u>
Released to income and expenditure account				
Buildings	608	772	–	1,380
Equipment	286	539	2,559	3,384
	<u>894</u>	<u>1,311</u>	<u>2,559</u>	<u>4,764</u>
As at 31 July 2001				
Land	103	170	–	273
Buildings	67,562	51,808	–	119,370
Equipment	262	271	6,343	6,876
	<u>67,927</u>	<u>52,249</u>	<u>6,343</u>	<u>126,519</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

21 ENDOWMENT FUNDS

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
As at 1 August 2000	160,797	3,280	164,077
Additions	861	1	862
Appreciation on realisation and revaluation	(5,132)	(105)	(5,237)
Income for the year	6,593	134	6,727
Transferred to income and expenditure account (note 5)	(4,975)	(123)	(5,098)
Transferred to deferred capital grants	(428)	–	(428)
Administration fee	(509)	(11)	(520)
As at 31 July 2001	157,207	3,176	160,383
		2001 £ 000's	2000 £ 000's
Representing:			
Prizes and scholarship funds		68,954	69,702
Chairs and lectureship funds		45,380	47,123
Other funds		42,873	43,972
General purposes		3,176	3,280
		160,383	164,077

Transfers to deferred capital grants include £428,000 (2000 – £536,000) expended in the year (see Note 20 Deferred capital benefactions funding building capital expenditure).

22 REVALUATION RESERVE

	Group and University
	Total £ 000's
As at 1 August 2000	316,624
Transfer to general reserve – depreciation on revalued assets (note 23)	(4,269)
Disposals in the year (note 23)	(2,062)
As at 31 July 2001	310,293

23 GENERAL RESERVES

	Group	University
	£ 000's	£ 000's
As at 1 August 2000	97,102	96,448
Deficit attributable for the year	(373)	(244)
Transfer from revaluation reserve – depreciation on revalued assets (note 22)	4,269	4,269
Realisation of revaluation gains of previous years (note 22)	2,062	2,062
Balance at 31 July 2001	103,060	102,535

Financial Statements 2000/2001

THE UNIVERSITY OF EDINBURGH

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

24 RECONCILIATION OF CONSOLIDATED DEFICIT BEFORE TAX TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	2001 £000's	2000 £000's
DEFICIT BEFORE TAX	(376)	(12,001)
Depreciation (note 12)	11,820	9,112
Impairment of Fixed Assets (note 12)	–	16,349
Deferred capital grants released to income (note 20)	(5,098)	(6,438)
Endowment income (note 5)	(5,098)	(5,890)
Endowment administration fees (note 21)	(520)	(441)
(Profit)/Loss on disposal of fixed assets	(251)	967
Interest payable (note 9)	3,903	2,223
Decrease/(Increase) in stocks	91	(116)
Increase in debtors	(6,956)	(11,069)
Increase in accruals and deferred income	2,144	2,925
Increase in creditors	3,147	1,559
Increase in provisions (note 19)	90	289
Interest receivable (note 5)	(2,587)	(1,203)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	309	(3,734)
25 RETURN ON INVESTMENT & SERVICING OF FINANCE		
Endowment funds dividends and interest received	6,643	5,392
Interest received	2,495	1,209
Interest paid	(3,268)	(1,849)
Finance lease interest paid	(231)	(291)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	5,639	4,461
26 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchases of tangible assets (note 12)	(34,361)	(35,795)
Proceeds from sale of tangible assets	3,764	1,550
Proceeds from sale of investments	–	40
Deferred capital grants received – Funding Councils and research equipment	17,205	11,500
Deferred capital grants received – Other capital benefactions	3,444	7,364
Purchase of Endowment investment assets (note 14)	(3,109)	(2,160)
Disposal of Endowment investment assets (note 14)	1,802	7,038
New Endowments received (note 21)	862	1,344
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(10,393)	(9,119)

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

27 MANAGEMENT OF LIQUID RESOURCES

	<u>2001</u> £000's	<u>2000</u> £000's
Increase / (Decrease) in deposits	(31,440)	5,547
NET CASH (OUTFLOW)/INFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES	<u>(31,440)</u>	<u>5,547</u>

28 FINANCING

Debt fully repayable beyond one year: Increase/(Decrease) in amounts borrowed	39,346	(623)
Capital repayment of finance lease obligations	(623)	(501)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING	<u>38,723</u>	<u>(1,124)</u>

29 ANALYSIS OF NET DEBT

	As at 1 August 2000 £000's	Cashflows £000's	Other Changes £000's	As at 31 July 2001 £000's
Cash at bank	13,070	2,839	–	15,909
Liquid Resources:				
Bank deposits	<u>9,010</u>	<u>31,440</u>	–	<u>40,450</u>
Cash in hand and at bank	22,080	34,279	–	56,359
Debt due within 1 year	(648)	654	(695)	(689)
Debt due after 1 year	(20,264)	(40,000)	695	(59,569)
Finance leases	(2,880)	623	–	(2,257)
Total	<u>(1,712)</u>	<u>(4,444)</u>	<u>–</u>	<u>(6,156)</u>

NOTES TO THE ACCOUNTS For the year ended 31 July 2001

30 PENSION ARRANGEMENTS

The University participates in the following pension schemes:

- a) The Universities Superannuation Scheme
- b) The University of Edinburgh Staff Benefits Scheme
- c) Scottish Teachers Superannuation Scheme
- d) Strathclyde Pension Fund
- e) The Federated Superannuation Scheme for Universities.

a) The Universities Superannuation Scheme (USS).

This is a defined benefit scheme which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each participating institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the deficit for the year in the Income and Expenditure Account equals the contributions payable to the scheme for the year.

The latest actuarial valuation was at 31 March 1999. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that valuation rate of interest would be 4.5% per annum, salary increases would be 3.6% per annum and pensions would increase by 2.6% per annum. In relation to future service liabilities it was assumed that the valuation rate of interest would be 5.5% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.5% per annum and pensions would increase by 2.5% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £18,870 million (including an estimated £55 million in respect of outstanding bulk transfer payments due) and the value of the past service liabilities was £17,427 million, leaving a surplus of assets of £1,443 million. The assets therefore were sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16.3% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 2.3% for the period of 11 years from the date of valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £561 million of the surplus. It was also agreed, following the valuation, that £201 million of the surplus would be used to fund certain benefit improvements. This left a past service surplus of £681 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The next formal valuation is due at 31 March 2002 when the above rates will be reviewed.

The total pension cost for the University in relation to USS was £12,396,000 (2000 – £11,861,000). This includes £1,722,000 (2000 – £1,633,000) of outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14% of pensionable salary.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

b) The University of Edinburgh Staff Benefits Scheme (EUSBS).

This is an externally funded defined benefit scheme which is contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. A full actuarial valuation was carried out at 31 July 2000, and an interim actuarial valuation carried out at 31 July 2001, both by a qualified independent actuary.

The major assumptions used by the actuary at July 2001 were as follows:

Rate of increase in salaries	4.0%
Rate of increase in pensions in payment	2.5%
Discount Rate	5.75%
Inflation assumption	2.5%

The assets in the scheme and the expected rate of return were as follows:

	Long term rate of return	Value at 31 July 2001 £ million
Equities	7.5%	112.4
Bonds	5.0%	20.3
Property	4.25%	3.4
Other – Mainly Cash	5.0%	8.0
		<u>144.1</u>

The following amounts at 31 July 2001 were measured in accordance with the requirements of FRS 17:

	<u>£ million</u>
Total market value of assets	144.1
Present value of scheme liabilities	<u>133.1</u>
Surplus in the scheme – Net pension asset	<u>11.0</u>

The total pension cost for the University in relation to SBS was £2,214,000 (2000 – £2,224,000). This includes £360,000 (2000 – £365,000) of outstanding contributions at the balance sheet date. The contribution rate payable by the University was 7.4% of pensionable salary.

c) Scottish Teachers Superannuation Scheme (STSS).

Former members of the academic staff at Moray House Institute of Education are covered by the STSS which is an unfunded, multi-employer, defined benefits scheme which is contracted out of the State Earnings-Related Pension Scheme. The scheme has a notional fund which is revalued on a five year cycle by the Government Actuary. It is not possible to identify each participating institution's share of the notional assets and liabilities of the scheme and hence contributions are accounted for as if it were a defined contribution scheme. The cost recognised within the deficit for the year in the Income and Expenditure Account equals the contributions payable to the scheme for the year.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

c) Scottish Teachers Superannuation Scheme (continued)

The contribution levels are assessed every five years in accordance with the advice of the Government Actuary. The last valuation was at 31 March 1996. The assumptions and other data which have the most significant effect on the determination of the contribution levels are as follows:

Actuarial method	Prospective benefits
Investment returns per annum	8.5%
Earnings increases per annum	6.5%
Pensions increase per annum	5.0%
Market value of assets at date of last valuation	£4,370 million
Deficit in scheme at last valuation	£230 million
Proportion of members' accrued benefits covered by the actuarial value of the assets.	95%

The total pension cost for the University in relation to STSS was £257,000 (2000 – £272,000). This includes £24,000 of outstanding contributions at the balance sheet date. During the year, the employers contribution has been 6.9% of pensionable salary. This will increase to 7.15% with effect from 1 April 2002.

d) Strathclyde Pension Fund (SPF).

Other former members of the Moray House Institute of Education staff are covered by the SPF administered through Glasgow City Council. This is an externally funded, multi-employer, defined benefits scheme which is contracted out of the State Earnings-Related Pension Scheme.

The last full valuation was carried out at 31 March 1999 by a qualified independent actuary. To update this to provide appropriate information in respect of the former Moray House staff members, he has used the following valuation data:

- The membership data submitted for the previous valuation at 31 March 1999;
- Pension fund accounts for each year since the previous valuation date to 31 March 2001; and
- Other relevant information provided by Glasgow City Council as the administering authority in the Fund in relation to the University in the period since the previous valuation, estimated where necessary.

The actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 July 2001 does not introduce any material distortion in the results, provided that the actual experience of the Fund has been broadly in line with their assumptions.

The major assumptions used by the actuary were:

Rate of increase of salaries	4.0%
Rate of increase in pensions in payment	2.5%
Discount rate	5.7%
Inflation assumption	2.5%

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

d) Strathclyde Pension Fund (continued)

The assets in the total fund and the expected rates of return were as follows:

	Long Term Rate Of Return	Value at 31 July 2001 £ million
Equities	7.0%	4,665.4
Bonds	5.5%	646.4
Property	6.0%	514.0
Cash	4.0%	222.6
		6,048.4

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.245%.

The following amounts at 31 July 2001 with regard to the University were measured in accordance with the requirements of FRS 17:

	£000's
Total market value of assets	14,803
Present value of scheme liabilities	14,042
Surplus in the scheme – Net pension asset	761

The total pension cost for the University in relation to SPF was £266,000 (2000 – £247,000). This includes £24,000 of outstanding contributions at the balance sheet date. The contribution rate payable by the University was 13.2% of pensionable salary.

e) The Federated Superannuation Scheme for Universities (FSSU)

The FSSU covers a small number of academic staff that did not transfer to USS when it was introduced in 1975. It is a defined contribution scheme. The total cost recognised by the University included in the deficit for the year was £23,000 (2000 – £23,000). This excludes £6,000 (2000 – £6,000) of prepaid contributions at the balance sheet date.

f) Contributions to other pension arrangements by subsidiaries of the University were £84,000 (2000 – £63,000). The total pension contribution for the University Court included in the deficit for the year (note 6) was £15,240,000 (2000 – £14,690,000).

The pension cost excludes payments of £224,000 (2000 – £217,000) made to USS on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded from the University's Income and Expenditure Account.

Payments to retired members in respect of the USS Supplementation scheme amounted to £93,000 (2000 – £104,000).

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

- g) If the above amounts relating to defined benefits schemes had been recognised in the financial statements, the University's net assets and income and expenditure reserve at 31 July 2001 would be as follows:

	£000's
Net assets excluding pension assets	700,292
Pension asset : EUSBS	144,079
Strathclyde Pension Fund	761
Net assets including pension assets	845,132
Income and Expenditure reserves excluding pension assets	103,060
Pension reserves : EUSBS	11,000
Strathclyde Pension Fund	761
Income and Expenditure reserves	114,821

31 CAPITAL COMMITMENTS

Outstanding capital commitments as at 31 July 2001 were as follows:

	Group and University	
	2001 £000's	2000 £000's
Contracts entered into for building work	52,006	33,405

Of the above commitments, £18,920,000 (2000 – £14,477,000) will be funded through grants and benefactions.

32 CONTINGENT LIABILITIES

The University has provided a guarantee to Edinburgh Research and Innovation Limited (ERI), a wholly owned subsidiary, to allow ERI to enter into a sale and leaseback arrangement with regard to a property used by ERI. In the event of a default by ERI, the maximum liability for the University would be £6.2 million being the remaining rental payments until the end of the lease.

33 OTHER FINANCIAL COMMITMENTS

In the event that the purchaser fails to obtain limited planning permissions for residential development of the former Newington campus of Moray House Institute of Education, the University has an obligation to repurchase the site at a cost of £2,000,000. The University considers this level of planning consent will be obtained and accordingly considers it unlikely that any liability to repurchase will arise.

34 CONTINGENT ASSETS

The University has an entitlement under the terms of the sale in 1998 of the former Newington campus of Moray House Institute of Education to an additional consideration if appropriate planning permission is granted. The University's best estimate of this contingent consideration is £3,100,000.

The University also has an entitlement under the terms of the sale agreement made in 2000, with regards to the Cramond site to a consideration in excess of the existing use value of the campus if appropriate planning permission is granted. The University's best estimate of this contingent consideration is £6,000,000.

Financial Statements 2000/2001

NOTES TO THE ACCOUNTS
For the year ended 31 July 2001

35 UNIVERSITY COLLECTIONS

The University Court holds a number of valuable collections which are not included in the Balance Sheet. The main collections which have been identified and their indicative values are as follows:

	Approximate value £ 000's
Bronze Collection	9,000
Paintings	8,200
Special Library Collections	6,000
Historical Musical Instruments	500
Marbles and Vases	200
	<u>23,900</u>

UNIVERSITY INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 July 2001

INCOME	2001 £ 000's	2000 £ 000's
Funding Council grants	104,026	104,656
Tuition fees and education contracts	41,537	39,124
Research grants and contracts	76,495	70,083
Profits covenanted from subsidiaries	1,300	1,364
Other operating income	45,769	47,171
Endowment and investment income	7,474	7,002
	Total Income	269,400
EXPENDITURE		
Staff costs	167,320	161,046
Other operating expenses	94,100	94,547
Depreciation	11,695	8,886
Impairment of Fixed Assets	–	15,281
Interest payable	3,730	1,953
	Total Expenditure	281,713
DEFICIT AFTER DEPRECIATION OF ASSETS AT VALUATION	(244)	(12,313)

Explanatory Note

	2001 £ 000's	2000 £ 000's
<i>DEFICIT ON CONTINUING OPERATIONS AS ABOVE FOR THE YEAR POST EXCEPTIONAL ITEMS</i>	(244)	(12,313)
<i>LESS: EXCEPTIONALS INCLUDED IN THE YEAR</i>		
<i>Income from Funding Council grants</i>	–	(340)
<i>Other income</i>	–	(2,289)
<i>Impairment of Fixed Assets</i>	–	15,281
<i>(DEFICIT)/SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR BEFORE EXCEPTIONAL ITEMS</i>	(244)	339